

Message Text

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ACTION INR-05

INFO OCT-01 SS-14 ISO-00 EB-03 NSC-05 NSCE-00 CIAE-00

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FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC PRIORITY 1527

INFO AMEMBASSY BONN

US MISSION EC BRUSSELS 668

AMEMBASSY MOSCOW

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AMEMBASSY PRAGUE

C O N F I D E N T I A L TEHRAN 4531

LIMDIS

E.O. 11652: GDS

TAGS: ENGR, UR, GW, IR

SUBJ: GERMAN/IRANIAN/SOVIET NATURAL GAS DEAL

REF: A(A) STATE 090963; (B) MOSCOW 5734; (C) MOSCOW 5226;
(D) BONN 5885; (E) TEHRAN 3214; (F) TEHRAN 10960 (DEC 30, 1974)
(G) TEHRAN A-183, (DEC 23, 1974);(H) TEHRAN 10161, (DEC 1, 1974)
(I) TEHRAN 9833, 9:5 24, 1974 (J) TEHRAN 6890 (AUG 18, 1974)
(K) TEHRAN 5536 (JULY 7, 1974) (L) TEHRAN 5411 (JULY 1, 1974)
(M) TEHRAN 5135 (JUNE 24, 1974;)(N) TEHRAN 4292 (MAY 28, 1974)
(O) TEHRAN 2614 (APRIL 4, 1974) (P) TEHRAN 0728 (JAN 28, 1974)

1. SUMMARY: THIS CABLE GIVES SOME ADDITONAL DETAIL ON TRIPARTITE
GAS PROJECT. AS WE UNDERSTAND IT, RUHRGAS WILL PAY IRANIANS FOR
ABOUT 1.3 BILLION STANDARD CUBIC FEET PER DAY OF GAS
DELIVERED AT ASTARA AND WILL PAY SOVIETS AN ADDITIONAL TRANSIT
FEE ON ABOUT 1.1 BILLION SCF/D OF UKRAINIAN GAS DELIVERED AT
WEIDHAS (ABOUT 15 PERCENT LESS THAN QUANTITY DELIEVERED AT ASTARA)
IN SUCH A WAY THAT TOTAL PRICE TO RUHRGAS WILL COME INITIALLY TO
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ABOUT \$1.67 PER THOUSAND CUBIC FEET (OR PER MILLION BUT--WE ARE

NOT CERTAIN WHICH). THIS FIGURE (WHICH SHOULD BE HELD CLOSELY) WILL ALSO BE FLOOR PRICE, BUT WILL HAVE INFLATION EXCALATOR LINKED TO PRICE OF HEAVY FUEL OIL IN GERMANY. END SUMMARY.

2. EMBASSY BEMUSED BY CLAIM IN REF A THAT ONLY SOURCES OF INFORMATION ON SUBJECT ARE REFTELS C AND D AND A FBIS REPORT. REF A'S TONE OF WONDER ALSO REMARKABLE IN VIEW OF REFS E THROUGH P (AS HASTY LISTING OF TEHRAN'S REPORTING ABOUT, OR RELATED TO, TRIALTERAL PROJECT) PLUS SEVERAL CABLES OVER LAST YEAR AND A HALF FROM EMBASSIES BONN AND MOSCOW.

3. WE HAVE REPEATDLY REPORTED THAT GAS NOT BEING TRANSMITTED ACROSS SOVIET TERRITORY TO GERMANY. MOST LIKELY SOURCE OF CONFUSION ON THIS POINT IS COMMUNICATION FAILURE BETWEEN THOSE WHO PLAN SUCH PROJECTS AND MEDIA PROPLE WHO REPORT THEM TO PUBLIC, UNLESS SOVIET COMMENTATORS ARE FAR MORE SOPHISTICATED TECHNICALLY THAN THEIR WESTERN COUNTERPARTS. FOLLOWING ARE SOME FURTHER DETAILS ON PROJECT: NIGC EXPECTS TO USE (INITALLY, AT LEAST) GAS FROM KANGAN RESERVOIR (ON SHORE, IN THE EGDCO AREA). THIS GAS IS SWEET AND FAIRLY DRY, BUT CONTAINS SOME NITROGEN AND CARBON DIOXIDE. THESE RELATIVELY INERT GASES AND THE DRYNESS OF THE GAS MAKE ITS BTU CONTENT LOWER THAN THE GAS NIGC PRESENTLY DELIVERS AT ASTARA. THE IRANIAN GAS WILL BE USED BY SOVIET INDUSTRIES AND CITIES IN THE CAUCASUS, THOUGH PART OF IT MAY POSSIBLY BE FED INTO AN EXISTING TRANSMISSION SYSTEM FROM THE CAUCASUS TO MOSCOW(PRESUMABLY TO REPLACE DECLINING BAKOR PRODUCTION).

4. TRIPARTITE AGREEMENT CONSISTS OF THREE DOCUMENTS: A SHORT GENERAL AGREEMENT, CONTAINING LITTLE DETAIL AND SIGNED BY THE THREE PARTIES, PLUS TWO EXTREMETLY DETAILED BILATERAL CONTRACTS-- ONE BETWEEN RUHRGAS AND NIGC AND ONE BETWEEN RUHRGAS AND THE RUSSIANS. NIGC SOURCE BECAME SOMEWHAT CONFUSED IN EXPLAINING PRICING MECHANISM: HE SAID IT CONSISTED OF WEIDHAS (GERMAN/CZECH BORDER) PRICE WHICH WAS TO BE SUM OF ASTARA (IRAN/ USSR BORDER) PRICE PLUS IMPUTED TRANSIT FEE, AND THAT EACH OF THREE ELEMENTS IS TIED TO A SEPARATE INDEX. UNDER QUESTIONING HE REALIZED THAT THIS IS MATHEMATICALLY IMPOSSIBLE AND SAID HE WOULD CHECK DETAILS AND CLARIFY LATER. IN ANY CASE, HE SAID, WEIDHAUS PRICE IS TO BE "MARKET PRICE," TIED TO BTU MARKET VALUE
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OF HEAVY, HIGH SULPHUR FUEL OIL IN GERMANY. ASTARA PRICE WILL BE TIED TO PRICE OF "MIX" OF HIGH AND LOW SULPHUR FUEL OIL PRICES ON PERSIAN GULF. PRESUMABLY "WEIDHAUS PRICE" INDICATES TOTAL RUHRGAS WILL PAY FOR BTU.S ACTUALLY DELIVERED TO GERMANY. SOURCE SAID INITIAL WEIDHAUS PRICE IS AROUND \$1.67, THOUGH WE ARE UNCERTAIN WHETHER SOURCE MEANT THIS IS PRICE PER THOUSAND CUBIC FEET OR PER MILLION BUT. (DEPARTMENT PELASE HOLD CLOSELY. LEAK OF THIS FIGURE WOULD PREJUDICE OUR ABILITY TO GATHER FURTHER DETIALS

HERE.)

5. IMPUTED TRANSIT FEE CONSISTS OF TWO PARTS, ONE DENOMIATED "COMPRESSOR FUEL" AND PAID IN GAS AND THE OTHER A FEE PAID IN CASH BY RUHRGAS TO THE RUSSIANS. "COMPRESSOR FUELS" PAYMENT IN GAS, SOURCE SAID, WILL BE "ABOUT 15 PERCENT OF GAS DELIVERED AT ASTARA," AND WAS DETERMINED "ON BASIS" OF AMOUNT OF FUEL THAT WOULD BE NEEDED TO DRIVE COMPRESSORS IF GAS WERE TRANSMITTED THE FULL 4,000 KM. FROM ASTARA TO WEIDHAS (AS WILL NOT REPEAT NOT BE THE CASE). THIS 15 PERCENT IS MUCH LESS, PERHAPS HALF, OF THAT AMOUNT. THUS 1.3 BILLION CF/D IN DELIVERIES OF UKRAINIAN GAS AT WEIDHAS. (NOTE: RULE OF THUMB IS THAT 1 BILLION CF/D APPROXIMATELY EQUALS 10 BILLION CUBIC METERS PER YEAR.)

6. IN SUM, OUR PRESENT UNDERSTANDING IS THAT RUHRGAS WILL PAY ASTARA PRICE TO IRAN ON FULL VOLUME OF GAS DELIVERED BY NIGC AT ASTARA, SOVIET UNION WILL DELIVER 15 PER CENT LESS GAS AT WEIDHAUS AND COLLECT AN ADDITIONAL TRANSIT FEE. SUM PAID BY RUHRGAS (ASTARA PRICE ON 1.3 BILLION CUBIC FEET DAILY PLUS CASH FEE TO SOVIETS) WILL WORK OUT TO AROUND \$1.67 PER THOUSAND CUBIC FEET OR PER MILLION BT FOR 1.1 BILLION CUBIC FEET DAILY OF GAS DELIVERED AT WEIDHAUS. (NOTE: IMPUTED TRANSIT FEE OF 10-20 CENTS PER 1000 CUBIC FEET ON 1.1 BCF AT WEIDHAUS WOULD IMPLY PRICE OF \$1.11 TO \$1.45 PER 1000 CUBIC FEET FOR 1.3 BCF AT ASTARA. THIS INITIAL PRICE IS A FLOOR PRICE, BUT WILL MOVE UPWARD IF MARKET PRICE OF HEAVY, HIGH SULPHUR FUEL IN GERMANY INCREASES. FOREGOING DESCRIPTION OBVIOUSLY SKETCHY AND PERHAPS IMPRECISE, BUT HOPEFULLY WILL HELP OTHER POSTS ASK RIGHT QUESTIONS TO IMPROVE OUR INFORMATION ON PROJECT. EMBASSY WILL ATTEMPT TO CLARIFY AMBIGUITIES NOTED ABOVE AND ADD FURTHER DETAILS FOLLOWING RETURN OF KEY NIOC AND NIGC OFFICIALS FROM NPC IN JAPAN.
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